

CITY OF SHENANDOAH
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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City of Shenandoah

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Hunt	Mayor	January 2014
Kim Swank	Council Member	January 2014
Don Gibson	Council Member	January 2014
Rod Nester	Council Member	January 2014
Robert Burchett	Council Member	January 2016
Aaron Green	Council Member	January 2016
Byron Harris	Administrator	January 2015
Mary Smith	Clerk/Treasurer	January 2015
Robert Norris	Attorney	Indefinite

City of Shenandoah

December 13, 2013

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Continued....

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Shenandoah's basic financial statements. The financial statements for the nine years ended June 30, 2012 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Continued...

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 8 through 13 and 30 through 31 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of the City of Shenandoah's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Shenandoah's internal control over financial reporting and compliance.

Schroeder & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Shenandoah provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 12.6%, or approximately \$913,000, from fiscal year 2012 to fiscal year 2013. The decrease in governmental activities receipts is primarily due to a decrease in note proceeds of approximately \$775,000.
- Governmental activities disbursements decreased 20.5%, or approximately \$1,772,000, from fiscal year 2012 to fiscal year 2013. Debt service function disbursements decreased approximately \$355,000. Capital projects function disbursements decreased approximately \$1,119,000.
- The City's total cash basis net position decreased 17.6%, or approximately \$779,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased approximately \$489,000, and the cash basis net position of the business type activities decreased by approximately \$290,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system and wastewater treatment and sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from approximately \$3.52 million to approximately \$3.03 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 976	\$ 1,057
Operating grants, contributions and restricted interest	996	955
Capital grants, contributions and restricted interest	819	1,078
General receipts:		
Property and other city tax	2,404	2,268
Tax increment financing	271	264
Local option sales tax	559	475
Hotel/motel tax	53	74
Grants and contributions not restricted to specific purposes	5	-
Unrestricted interest on investments	1	38
Sale of capital assets	5	-
Note proceeds	225	1,000
Other general receipts	-	18
Total receipts	<u>6,314</u>	<u>7,227</u>
Disbursements:		
Public safety	1,265	1,435
Public works	1,257	1,260
Health and social services	1	1
Culture and recreation	1,160	947
Community and economic development	382	695
General government	317	342
Debt service	1,037	1,392
Capital projects	1,414	2,533
Total disbursements	<u>6,833</u>	<u>8,605</u>
Change in cash basis net position before transfers	(519)	(1,378)
Transfers, net	<u>30</u>	<u>-</u>
Change in cash basis net position	(489)	(1,378)
Cash basis net position beginning of year	<u>3,515</u>	<u>4,893</u>
Cash basis net position end of year	<u>\$ 3,026</u>	<u>\$ 3,515</u>

Total business type activities cash balance decreased from approximately \$910 thousand a year ago, to approximately \$620 thousand. The analysis that follows focuses on the changes in cash basis net position of business type activities.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 1,561	\$ 1,552
Sewer	612	608
Operating grants, contributions and restricted interest		
Water	-	33
Sewer	19	9
General receipts		
Unrestricted interest on investments	1	1
Note proceeds	170	869
Miscellaneous	23	119
Total receipts	<u>2,386</u>	<u>3,191</u>
Disbursements:		
Water	1,965	1,996
Sewer	681	632
Total disbursements	<u>2,646</u>	<u>2,628</u>
Change in cash basis net position before transfers	(260)	563
Transfers, net	<u>(30)</u>	<u>-</u>
Change in cash basis net position	(290)	563
Cash basis net position beginning of year	<u>910</u>	<u>347</u>
Cash basis net position end of year	<u>\$ 620</u>	<u>\$ 910</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Shenandoah completed the year, its governmental funds reported a combined fund balance of \$3,026,343, a decrease of \$489,064 from last year's total of \$3,515,407. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance was \$507,275 at the end of fiscal year 2013 and \$410,050 at the end of fiscal year 2012. The change is due to the planned used of cash reserves and other revenues coming in less than expected.
- The Special Revenue, Road Use Tax Fund cash balance at the end of fiscal year 2013 increased \$33,176 from the prior year end to \$188,022 due to less snow removal costs and more Road Use taxes received than estimated.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$127,517 from the prior year to \$41,652 due to planned use of reserve balance instead of increase tax levy for increased costs.
- The Special Revenue, Local Option Sales Tax Fund receipts increased \$8,463 in fiscal year 2013 from \$0 in fiscal year 2012.

By a referendum, the local option sales tax is allocated into four categories: 60% for property tax relief, 20% for community betterment, 10% for community planning, and 10% for economic development. The following is a breakdown of fiscal year receipts:

Property tax relief	\$	335,213
Community betterment		111,738
Community planning		55,869
Economic development		<u>55,869</u>
Total	\$	<u>558,689</u>

Most of the funds are transferred to supplement the General Fund. The portion for community planning is used to help finance the City's metal recycling program. All of the portion received for economic development goes to the Shenandoah Chamber and Industry Association. All monies transferred from the Special Revenue, Local Option Sales Tax Fund to other City funds are used for, or are a form of, property tax relief.

- The Special Revenue, Tax Increment Financing Fund was established in fiscal year 2003 for the construction of a new theater and was used in 2004 for Iowa Western Community College improvements. The cash balance decreased from \$144,562 at the end of fiscal year 2012 to \$127,169 at the end of fiscal year 2013 due to new TIF project expenses not certified yet to be received in fiscal year 2013, but will be certified to receive in fiscal year 2014.
- The Special Revenue, Library Foundation Fund is a component unit of the City. The cash balance decreased \$65,931 to a balance of \$439,822.
- The Debt Service Fund cash balance decreased \$6,041 from the prior year balance of \$0.
- The Capital Projects Fund cash balance decreased \$369,987 from the prior year to \$92,281 due to library expansion program being completed.
- The Permanent, Snook Trust Fund accounts for a \$980,000 bequest received in 2009 to establish an endowment and an additional \$175,000 bequest received in 2010. The income on the Trust is to be distributed in equal shares to five charities as discussed in Note 1 to the financial statements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- Enterprise, Water Fund cash balance decreased \$250,589 to \$578,267 due to fewer gallons of water sold and use of funds for new projects and planning.
- Enterprise, Sewer Fund cash balance decreased \$39,756 to \$41,554 due to digester lid repairs and legal dispute expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in increases in receipts of \$486,259 and disbursements of \$1,310,397. Budgeted disbursements increased as a result of additional expenses for housing, storm sewer project, library expansion, pool repairs and police academy training. The receipts increased due to additional LOST taxes, Hotel/Motel taxes, sale of equipment, reimbursements and grant proceeds.

The City's receipts were \$6,654,028 less than budgeted. This was primarily due to lower than expected receipts from intergovernmental sources.

With the budget amendment, total disbursements were \$6,481,183 less than the amended budget due to budgeting for water project costs that were not incurred.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$9,728,000 of notes and other long-term debt outstanding, compared to approximately \$10,443,000 last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2013	2012
General obligation notes	\$ 5,495	6,175
Sewer revenue capital loan notes	2,050	2,166
Urban renewal revenue notes	735	835
Special assessment bonds/notes	1	1
Capital lease purchase agreements	17	6
Interim water project notes	1,430	1,260
Total	\$ 9,728	10,443

Debt payments in fiscal year 2013 reduced outstanding debt approximately \$1,123,000 and debt issuances increased outstanding debt approximately \$408,000, or a net decrease of approximately \$715,000.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,495,000 and urban renewal revenue notes of \$735,000, a total of \$6,230,000, is significantly below the City's constitutional debt limit of approximately \$9,500,000. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Shenandoah's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

The City has many projects planned when adopting the budget for fiscal year 2014. A new water treatment plant, water wells and water mains will increase budget expenses and require rate increases and bond proceeds for funding. The City plans to receive more state and federal funds in fiscal year 2014 for airport projects. Both revenues and expenses will increase greatly due to these projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Byron Harris, City Administrator, by mail at 500 W. Clarinda Avenue, Shenandoah, Iowa 51601-0388, or by phone at (712) 246-4411.

Basic Financial Statements

City of Shenandoah
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2013

	Disbursements	Program Receipts			Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 1,265,822	120,962	127,412	-	(1,017,448)	-	(1,017,448)
Public works	1,256,709	627,071	509,051	-	(120,587)	-	(120,587)
Health and social services	1,146	-	-	-	(1,146)	-	(1,146)
Culture and recreation	1,160,098	217,876	197,771	-	(744,451)	-	(744,451)
Community and economic development	382,075	110	28,507	-	(353,458)	-	(353,458)
General government	317,453	9,541	133,335	-	(174,577)	-	(174,577)
Debt service	1,036,792	-	430	-	(1,036,362)	-	(1,036,362)
Capital projects	1,413,500	-	-	819,489	(594,011)	-	(594,011)
Total governmental activities	6,833,595	975,560	996,506	819,489	(4,042,040)	-	(4,042,040)
Business type activities:							
Water	1,965,721	1,573,833	-	-	-	(391,888)	(391,888)
Sewer	680,779	622,383	-	18,602	-	(39,794)	(39,794)
Total business type activities	2,646,500	2,196,216	-	18,602	-	(431,682)	(431,682)
Total	\$ 9,480,095	3,171,776	996,506	838,091	(4,042,040)	(431,682)	(4,473,722)
General Receipts:							
Property and other city tax levied for:							
General purposes					1,658,689	-	1,658,689
Debt service					744,918	-	744,918
Tax increment financing					271,000	-	271,000
Local option sales tax					558,689	-	558,689
Hotel/motel tax					53,208	-	53,208
Grants and contributions not restricted to specific purpose					5,148	-	5,148
Unrestricted interest on investments					523	1,038	1,561
Sale of capital assets					5,801	-	5,801
Note proceeds					225,000	170,299	395,299
Transfers					30,000	(30,000)	-
Total general receipts and transfers					3,552,976	141,337	3,694,313
Change in cash basis net position					(489,064)	(290,345)	(779,409)
Cash basis net position beginning of year					3,515,407	910,166	4,425,573
Cash basis net position end of year					\$ 3,026,343	619,821	3,646,164
Cash Basis Net Position							
Restricted							
Nonexpendable:							
Snook Trust					\$ 1,149,870	-	1,149,870
Cemetery perpetual care					164,858	-	164,858
Edsen Trust					20,664	-	20,664
Expendable:							
Streets					188,022	-	188,022
Employee benefits					41,652	-	41,652
Local option tax purposes					8,463	-	8,463
Tax increment financing					127,169	-	127,169
Library foundation					439,822	-	439,822
Debt service					-	422,357	422,357
Capital projects					92,281	-	92,281
Other purposes					292,308	-	292,308
Unrestricted					501,234	197,464	698,698
Total cash basis net position					\$ 3,026,343	619,821	3,646,164

See notes to financial statements

City of Shenandoah
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2013

	General	Special Revenue					Debt Service	Capital Projects	Permanent Trust	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Employee Benefits	Option Sales Tax	Increment Financing	Library Foundation					
Receipts											
Property tax	\$ 1,125,279	-	397,547	-	-	-	717,823	-	-	28,803	2,267,452
Tax increment financing	-	-	-	-	271,000	-	-	-	-	-	271,000
Other city tax	145,216	-	15,977	558,689	-	-	27,096	-	-	1,075	748,052
Licenses and permits	7,364	-	-	-	-	-	-	-	-	-	7,364
Use of money and property	4,952	-	-	260	537	2,829	430	42,298	5,554	4,694	61,324
Intergovernmental	56,288	493,194	-	-	-	-	-	736,742	-	-	1,276,224
Charges for service	804,247	-	-	-	-	-	-	-	-	-	804,247
Miscellaneous	232,420	-	65,385	2,520	-	-	-	-	-	-	644,007
Total receipts	2,375,706	493,194	478,809	561,469	271,537	74,624	745,348	818,409	5,554	257,880	8,083,730
Disbursements											
Operating:											
Public safety	888,648	-	335,434	-	-	-	-	-	2,294	39,456	1,265,822
Public works	674,821	460,018	121,870	-	-	-	-	-	-	-	1,256,708
Health and social services	-	-	-	-	-	-	-	-	1,146	-	1,146
Culture and recreation	775,017	-	144,797	-	-	140,555	-	-	2,292	97,437	1,160,098
Community and economic development	21,100	-	-	133,505	227,390	-	-	-	-	-	382,075
General government	203,943	-	4,315	-	-	-	-	-	-	29,195	317,453
Debt service	-	-	-	-	-	-	1,036,792	-	-	-	1,036,792
Capital projects	-	-	-	-	-	-	-	1,413,500	-	-	1,413,500
Total disbursements	2,843,829	460,018	608,406	133,505	227,390	140,555	1,036,792	1,413,500	5,732	166,085	6,833,595
Excess (deficiency) of receipts over (under) disbursements	(267,843)	33,176	(127,517)	427,964	44,147	(65,931)	(291,444)	(594,011)	(178)	91,772	(749,065)
Other financing sources (uses):											
Sale of capital assets	-	-	-	-	-	-	-	5,801	-	-	5,801
Note proceeds	-	-	-	-	-	-	-	225,000	-	-	225,000
Operating transfers in	404,636	-	-	-	-	-	285,403	16,483	-	-	706,504
Operating transfers out	(39,570)	-	-	(419,501)	(61,540)	-	-	(23,240)	-	(132,653)	(876,504)
	365,066	-	-	(419,501)	(61,540)	-	285,403	224,024	-	(132,653)	260,801
Net change in cash balances	97,225	33,176	(127,517)	8,463	(17,393)	(65,931)	(6,041)	(369,587)	(178)	(40,881)	(489,064)
Cash balances beginning of year	410,050	154,846	160,169	-	144,562	505,753	-	463,268	1,150,048	518,711	3,515,407
Cash balances end of year	\$ 507,275	\$ 188,022	\$ 41,652	\$ 8,463	\$ 127,169	\$ 439,822	\$ (6,041)	\$ 92,281	\$ 1,149,870	\$ 477,830	\$ 3,026,343
Cash Basis Fund Balances											
Nonspendable:											
Permanent trusts	\$ 47,816	-	-	-	-	-	-	-	1,149,870	185,522	1,335,382
Revolving fund	-	-	-	-	-	-	-	-	-	-	47,816
Restricted for:											
Streets	-	188,022	-	-	-	-	-	-	-	-	188,022
Employee benefits	-	-	41,652	-	-	-	-	-	-	-	41,652
Local option purposes	-	-	-	8,463	-	-	-	-	-	-	8,463
Urban renewal purposes	-	-	-	-	127,169	-	-	-	-	-	127,169
Library foundation	-	-	-	-	-	439,822	-	-	-	-	439,822
Capital projects	-	-	-	-	-	-	-	92,281	-	-	92,281
Other purposes	1,565	-	-	-	-	-	-	-	-	282,308	283,873
Assigned for economic development	73,185	-	-	-	-	-	-	-	-	-	73,185
Unassigned	304,709	-	-	-	-	-	(6,041)	-	-	-	378,668
Total cash basis fund balances	\$ 507,275	\$ 188,022	\$ 41,652	\$ 8,463	\$ 127,169	\$ 439,822	\$ (6,041)	\$ 92,281	\$ 1,149,870	\$ 477,830	\$ 3,026,343

See notes to financial statements

City of Shenandoah
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2013

	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 1,561,352	611,539	2,172,891
Miscellaneous	12,481	10,844	23,325
Total operating receipts	<u>1,573,833</u>	<u>622,383</u>	<u>2,196,216</u>
Operating disbursements:			
Business type activities	<u>1,051,405</u>	<u>474,997</u>	<u>1,526,402</u>
Excess of operating receipts over operating disbursements	522,428	147,386	669,814
Non-operating receipts (disbursements):			
Interest on investments	1,000	38	1,038
Project reimbursements	-	18,602	18,602
Debt service	-	(180,980)	(180,980)
Capital outlay	<u>(914,316)</u>	<u>(24,802)</u>	<u>(939,118)</u>
Total non-operating receipts (disbursements)	<u>(913,316)</u>	<u>(187,142)</u>	<u>(1,100,458)</u>
Excess (deficiency) of receipts over (under) disbursements	(390,888)	(39,756)	(430,644)
Other financing sources (uses)			
Note proceeds	170,299	-	170,299
Operating transfers out	<u>(30,000)</u>	<u>-</u>	<u>(30,000)</u>
	<u>140,299</u>	<u>-</u>	<u>140,299</u>
Net change in cash balances	(250,589)	(39,756)	(290,345)
Cash balances beginning of year	<u>828,856</u>	<u>81,310</u>	<u>910,166</u>
Cash balances end of year	<u>\$ 578,267</u>	<u>41,554</u>	<u>619,821</u>
Cash Basis Fund Balances			
Restricted for debt service	\$ 409,363	12,994	422,357
Unrestricted	<u>168,904</u>	<u>28,560</u>	<u>197,464</u>
Total cash basis fund balances	<u>\$ 578,267</u>	<u>41,554</u>	<u>619,821</u>

See notes to financial statements

City of Shenandoah

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (1) Summary of Significant Accounting Policies

The City of Shenandoah is a political subdivision of the State of Iowa located in Page and Fremont Counties. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shenandoah has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Shenandoah (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial burdens to the City.

Blended Component Unit

The Shenandoah Public Library Foundation (Library Foundation) is legally separate from the City, but is so intertwined with the City it is, in substance, part of the City. The Library Foundation was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. The Library Foundation collects donations which are used to purchase items not included in the City's budget. The financial transactions have been reported as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Page County Assessor's Conference Board, Page County Emergency Management Commission, Page County Joint E911 Service Board and the Page County Landfill Association.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (1) Summary of Significant Accounting Policies – Continued

A. Reporting Entity - Continued

Related Organizations

City Council Members are responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Funds.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax and other receipts to be used for employee pensions and other benefits.

The Local Option Sales Tax Fund is used to account for local option sales tax received and its use for purposes designated on the ballot which authorized the tax.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Library Foundation Fund is used to account for donations received by the Shenandoah Public Library Foundation to be used for library purposes.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

Permanent:

The Snook Trust Fund is utilized to account for the funds received from a bequest. Net income from investments is to be divided in equal shares between the following five organizations: the Public Library of Shenandoah, the Shenandoah Fire Department for the purchase of needed equipment, the Shenandoah Rescue Unit for the purchase of needed equipment, the Park System of Shenandoah, and the Shenandoah Memorial Hospital with the direction that 70% is to be used for the purchase of equipment and 30% is to be used for Elm Heights Home for Senior Citizens.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Shenandoah maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (1) Summary of Significant Accounting Policies – Continued

D. Governmental Cash Basis Fund Balances (continued)

Assigned – Amounts the City Council intends to use for specific purposes

Unassigned – All amounts not included in the preceding classifications

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the debt service function.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2011, to compute the amounts which became liens on property on July 1, 2012. These taxes were due and payable in two installments on September 30, 2012 and March 31, 2013 at the Page and Fremont County Treasurer's Office. These taxes are recognized as income to the City when they are received from the counties.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$224,561 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (3) Notes Payable

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Capital Loan Notes		Urban Renewal Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 895,000	168,519	120,000	61,500	105,000	46,135	1,120,000	276,154
2015	870,000	145,959	124,000	57,900	110,000	39,993	1,104,000	243,852
2016	890,000	120,848	127,000	54,180	120,000	33,392	1,137,000	208,420
2017	615,000	86,853	131,000	50,370	125,000	25,952	871,000	163,175
2018	570,000	71,010	135,000	46,440	135,000	18,015	840,000	135,465
2019-2023	1,655,000	108,120	739,000	168,960	140,000	9,240	2,534,000	286,320
2024-2027	-	-	674,000	51,300	-	-	674,000	51,300
	<u>\$ 5,495,000</u>	<u>701,309</u>	<u>2,050,000</u>	<u>490,650</u>	<u>735,000</u>	<u>172,727</u>	<u>8,280,000</u>	<u>1,364,686</u>

The City has a general obligation debt limit of approximately \$9,500,000 which was not exceeded during the year ended June 30, 2013.

Sewer Revenue Capital Loan Notes – On July 10, 2007, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of natural Resources for the issuance of sewer revenue notes of up to \$2,700,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,700,000 of sewer revenue capital loan notes issued in July 2007. Proceeds from the notes provided financing for improvements to the municipal sewer utility. The notes are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes are expected to require more than 100% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,540,650. For the current year, principal and interest paid and total customer net receipts were \$180,980 and \$147,386, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) After all other accounts have sufficient balances, the net revenues available after making the required principal and interest payments should be credited to a sewer surplus account for operation of the utility.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (3) Notes Payable - Continued

- (d) Sewer user rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the average annual installments of principal and interest on the notes falling due in the same year.

The City has not established user rates which produce and maintain net receipts at the required level.

Urban Renewal Revenue Notes

The urban renewal revenue notes were issued for the purpose of paying costs of an urban renewal project, consisting of demolition, renovation and equipment for the Community Theatre Project. The notes are payable solely from the income and proceeds of the urban renewal project in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal revenue notes shall be expended only for purposes consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City. The resolutions providing for the issuance of the notes shall include the following provisions:

- (a) A separate sinking account shall be established for the purpose of paying principal and interest coming due during the fiscal year. The City accounts for this activity within the Special Revenue, Tax Increment Financing Fund.
- (b) A separate reserve account shall be established to maintain a required debt service reserve. The City is to deposit note proceeds of \$148,500 into the reserve account. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate. The City accounts for these proceeds within the Special Revenue, Tax Increment Financing Fund.

Interim Water Project Notes

On January 17, 2008, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for issuance of interest free interim project notes of \$45,000. The principal on the notes is payable at maturity on December 29, 2013. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of planning and designing improvements and extensions to the municipal water system. The City receives drawdowns from the Trustee for costs as they are incurred. At June 30, 2013, the balance outstanding on the notes was \$45,000.

On December 29, 2010, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for issuance of interest free interim project notes of \$1,385,000. The principal on the notes is payable at maturity on December 29, 2013. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of planning and designing improvements and extensions to the municipal water system. The City receives drawdowns from the Trustee for costs as they are incurred. At June 30, 2013, the balance outstanding on the notes was \$1,385,000.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (4) Lease Purchase Agreements

Lease purchase agreements mature as follows:

Year Ending June 30,	Tractor	Copier
2014	\$ 2,372	\$ 2,835
2015	2,372	2,835
2016	-	2,835
2017	-	2,835
2018	-	2,127
	\$ 4,744	\$ 13,467
Less imputed interest	219	929
Total	\$ 4,525	\$ 12,538

NOTE (5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$158,983, \$141,432, and \$124,372, equal to the required contributions for each year.

NOTE (6) Other Postemployment Benefits (OPEB)

The City operates a single-employer health benefit plan which provides medical insurance benefits for employees, retirees and their spouses. There are 39 active members and 1 retired member in the plan. Participants must be age 65 or older at retirement.

The medical insurance coverage is provided through a fully-insured plan with Wellmark. The retiree pays the same premium for the coverage as active employees, which results in an implicit subsidy and an OPEB liability.

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members is \$445 for employee coverage, \$911 for employee/child coverage, \$842 for employee/spouse coverage, and \$1,364 for family coverage. For the year ended June 30, 2013, the City contributed \$443,447 and plan members eligible for benefits contributed \$457 to the plan.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, and compensatory time earned. Employees separated from City employment are paid for unused vacation time and compensatory time earned. However, sick leave days are lost upon resignation, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2013, primarily relating to the General Fund , is as follows:

Type of Benefit	Amount
Vacation	\$ 68,000
Compensatory time	10,000
Total	\$ 78,000

This liability has been computed based on rates of pay in effect at June 30, 2013.

NOTE (8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 287,135
	LOST Revenue Note Sinking	90
	Wilson Trust Library	30,000
	Wilson Trust City	57,413
	Enterprise:	
	Water	30,000
		<u>404,638</u>
Debt Service	General	39,570
	Special Revenue:	
	Local Option Sales Tax	130,103
	Tax Increment Financing	61,540
	Wilson Trust City	30,950
	Capital Projects	23,240
		<u>285,403</u>
Capital Projects	General	14,200
	Special Revenue:	
	Local Option Sales Tax	2,263
		<u>16,463</u>
		<u>\$ 706,504</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

City of Shenandoah
Notes to Financial Statements
June 30, 2013

NOTE (9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (10) Economic Development Revolving Loan Account

Conditions of the loans are determined by the Loan Review Committee on a case by case basis, with final approval by the City Council. Current loans are for a period of five to fifteen years, bearing interest at rates ranging from 1% to 4%, and are to be repaid in either monthly or quarterly installments. During the year ended June 30, 2013, collections of \$21,917 of principal and \$1,981 of interest were received. The outstanding loan principal balance within the General Fund was \$47,816 at June 30, 2013.

NOTE (11) Related Party Transactions

Related party transactions between the City and employees totaled \$5,698 during the year ended June 30, 2013.

NOTE (12) Deficit Balance

The Debt Service Fund had a deficit balance of \$6,041 at June 30, 2013. The balance was a result of payment made on new debt issued during the year. The deficit will be eliminated with property tax receipts.

NOTE (13) Construction Commitments

The City had \$14,278,503 in construction commitments at June 30, 2013 for a water system improvement project.

NOTE (14) Subsequent Events

In July 2013, the City signed a contract for a storm sewer project for \$81,594.

In September 2013, the City approved \$14,057,000 in water revenue capital loan notes to finance the water system improvement project.

Other Information

City of Shenandoah
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts							
Property tax	\$ 2,267,452	-	-	2,267,452	2,284,617	2,284,617	(17,165)
Tax increment financing	271,000	-	-	271,000	271,000	271,000	-
Other city tax	748,052	-	-	748,052	577,959	701,484	46,568
Licenses and permits	7,364	-	-	7,364	64,525	64,525	(57,161)
Use of money and property	61,324	1,038	2,629	59,733	65,800	65,257	(5,524)
Intergovernmental	1,276,224	18,602	-	1,294,826	7,482,670	7,771,632	(6,476,806)
Charges for service	804,247	2,172,891	-	2,977,138	3,076,705	3,115,910	(138,772)
Miscellaneous	648,067	23,325	71,995	599,397	569,455	604,565	(5,168)
Total receipts	6,083,730	2,215,856	74,624	8,224,962	14,392,731	14,878,990	(6,654,028)
Disbursements							
Public safety	1,265,822	-	-	1,265,822	1,279,199	1,300,837	35,015
Public works	1,256,709	-	-	1,256,709	1,306,137	1,306,137	49,428
Health and social services	1,146	-	-	1,146	2,000	2,000	854
Culture and recreation	1,160,098	-	140,555	1,019,543	1,023,068	1,132,068	112,525
Community and economic development	382,075	-	-	382,075	347,635	408,716	26,641
General government	317,453	-	-	317,453	336,608	349,591	32,138
Debt service	1,036,792	-	-	1,036,792	1,015,905	1,015,905	(20,887)
Capital projects	1,413,500	-	-	1,413,500	677,750	1,921,989	508,489
Business type activities	-	2,646,500	-	2,646,500	8,322,026	8,383,460	5,736,960
Total disbursements	6,833,595	2,646,500	140,555	9,339,540	14,510,326	15,820,723	6,481,183
Excess (deficiency) of receipts over (under) disbursements	(749,865)	(430,644)	(65,931)	(1,114,578)	(117,595)	(941,733)	(172,845)
Other financing sources, net	260,801	140,299	-	401,100	3,200	38,200	382,900
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(489,064)	(290,345)	(65,931)	(713,478)	(114,395)	(903,533)	190,055
Balances beginning of year	3,515,407	910,166	505,753	3,919,820	3,919,826	3,919,826	(6)
Balances end of year	\$ 3,026,343	619,821	439,822	3,206,342	3,805,431	3,016,293	190,049

See accompanying independent auditors' report

City of Shenandoah
Notes to Other Information – Budgetary Reporting
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,310,397. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the debt service function.

Supplementary Information

City of Shenandoah
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2013

	Special Revenue														Permanent	
	Rapp Trust Library	Rapp Charity Trust	Gidley Park Trust	Reed Estate Trust	Wilson Trust Library	Wilson Trust City	Forgotten Angels Cemetery Trust	LOST Revenue Note Sinking	Simons Trust	Friends of the Library	Volunteer Fire	Veteran Museum	Memorial Building	Cemetery Perpetual Care	Edson Trust	Total
Receipts																
Property tax	-	-	-	-	-	-	-	-	-	-	-	-	26,803	-	-	26,803
Other city tax	-	-	-	-	-	-	-	-	-	-	-	-	1,075	-	-	1,075
Use of money and property	-	-	9	3	54	18	9	-	34	-	23	-	4,438	-	76	4,664
Miscellaneous	-	34,299	16,020	-	42,069	88,356	-	-	-	-	40,498	2,188	-	1,888	-	225,318
Total receipts	-	34,299	16,029	3	42,123	88,374	9	-	34	-	40,521	2,188	32,316	1,888	76	257,860
Disbursements																
Operating:																
Public safety	-	-	-	-	-	-	-	-	-	-	39,456	-	-	-	-	39,456
Culture and recreation	-	-	25,784	-	-	-	-	-	51,832	-	-	1,107	18,714	-	-	97,437
General government	-	29,195	-	-	-	-	-	-	-	-	-	-	-	-	-	29,195
Total disbursements	-	29,195	25,784	-	-	-	-	-	51,832	-	39,456	1,107	18,714	-	-	166,088
Excess (deficiency) of receipts over (under) disbursements	-	5,104	(9,755)	3	42,123	88,374	9	-	(51,798)	-	1,065	1,081	13,602	1,888	76	91,772
Other financing sources (uses):																
Operating transfers out	-	-	-	-	(30,000)	(88,363)	-	(90)	-	-	-	-	(14,200)	-	-	(132,653)
Net change in cash balances	-	5,104	(9,755)	3	12,123	11	9	(90)	(51,798)	-	1,065	1,081	(598)	1,888	76	(40,861)
Cash balances beginning of year	11,686	-	40,683	11,686	86,064	-	3,337	90	124,673	978	47,699	559	7,698	162,970	20,588	518,711
Cash balances end of year	\$ 11,686	\$ 5,104	\$ 30,928	\$ 11,689	\$ 98,187	\$ 11	\$ 3,346	\$ -	\$ 72,875	\$ 978	\$ 48,764	\$ 1,640	\$ 7,100	\$ 164,858	\$ 20,664	\$ 477,830
Cash Basis Fund Balances																
Nonspendable trusts	\$ -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	185,522
Restricted for other purposes	11,686	5,104	30,928	11,689	98,187	11	3,346	-	72,875	978	48,764	1,640	7,100	-	-	292,308
Total cash basis fund balances	\$ 11,686	\$ 5,104	\$ 30,928	\$ 11,689	\$ 98,187	\$ 11	\$ 3,346	\$ -	\$ 72,875	\$ 978	\$ 48,764	\$ 1,640	\$ 7,100	\$ 164,858	\$ 20,664	\$ 477,830

See accompanying independent auditors' report

City of Shenandoah
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes									
General corporate purpose	Jul 1, 2000	5.95%	\$ 400,000	\$ 100,000	-	25,000	75,000	5,950	-
Essential corporate purpose	Sep 1, 2002	4.80%	115,000	15,000	-	15,000	-	720	-
Essential corporate purpose	Dec 15, 2006	4.20%	110,000	25,000	-	25,000	-	1,050	-
Essential corporate purpose	Jul 15, 2007	4.30-4.40%	915,000	795,000	-	125,000	670,000	34,445	-
Essential corporate purpose	Dec 27, 2007	5.20%	90,000	20,000	-	20,000	-	1,040	-
Essential corporate purpose	Aug 27, 2009	3.00-4.10%	3,460,000	2,705,000	-	350,000	2,355,000	91,283	-
Essential corporate purpose	Oct 28, 2010	1.35-3.05%	1,650,000	1,515,000	-	155,000	1,360,000	33,518	-
Essential corporate purpose	Apr 12, 2012	.60-2.20%	1,000,000	1,000,000	-	170,000	830,000	12,668	-
Essential corporate purpose	Oct 25, 2012	1.65-3.00%	225,000	-	225,000	20,000	205,000	3,240	-
			\$ 6,175,000	\$ 2,166,000	-	905,000	5,495,000	183,914	-
Sewer revenue capital loan notes	Jul 10, 2007	3.00%	\$ 2,700,000	\$ 2,166,000	-	116,000	2,050,000	64,980	-
Urban Renewal									
Community theater	Mar 1, 2003	5.85-6.60%	\$ 1,485,000	\$ 835,000	-	100,000	735,000	51,785	-
Special assessment notes									
Street improvement	Dec 1, 1980	9.75%	\$ 43,000	\$ 1,000	-	-	1,000	-	195
Interim water project notes									
Water system improvements	Jan 17, 2008	-	\$ 45,000	\$ 45,000	-	-	45,000	-	-
Water system improvements	Dec 29, 2010	-	1,385,000	1,214,701	170,299	-	1,385,000	-	-
			\$ 1,259,701	\$ 1,259,701	170,299	-	1,430,000	-	-
Lease purchase agreements									
Tractor	May 1, 2011	5.25%	\$ 10,701	\$ 6,615	-	2,090	4,525	282	-
Copier	Mar 5, 2013	3.00%	13,150	-	13,150	612	12,538	97	-
			\$ 6,615	\$ 6,615	13,150	2,702	17,063	379	-

See accompanying independent auditors' report

City of Shenandoah
Bond and Note Maturities
June 30, 2013

Year Ending June 30,	General Obligation Notes											
	General Corporate Purpose			Essential Corporate Purpose			Essential Corporate Purpose			Essential Corporate Purpose		
	Issued Jul 1, 2000		Amount	Issued Jul 15, 2007		Amount	Issued Aug 27, 2009		Amount	Issued Oct 28, 2010		Amount
	Interest Rates			Interest Rates			Interest Rates			Interest Rates		
2014	5.95%	25,000		4.30%	160,000		3.00%	355,000		1.35%	160,000	
2015	5.95%	25,000		4.35%	250,000		3.00%	290,000		1.70%	160,000	
2016	5.95%	25,000		4.40%	260,000		3.15%	295,000		2.00%	165,000	
2017	-	-		-	-		3.35%	305,000		2.30%	165,000	
2018	-	-		-	-		3.55%	320,000		2.50%	170,000	
2019	-	-		-	-		3.75%	325,000		2.70%	175,000	
2020	-	-		-	-		3.90%	345,000		2.90%	180,000	
2021	-	-		-	-		4.10%	60,000		3.05%	185,000	
2022	-	-		-	-		4.10%	60,000		-	-	
		<u>\$ 75,000</u>			<u>\$ 670,000</u>			<u>\$ 2,355,000</u>			<u>\$ 1,360,000</u>	

Year Ending June 30,	General Obligation Notes											
	Essential Corporate Purpose			Essential Corporate Purpose			Sewer Revenue Capital Loan Notes			Urban Renewal Revenue Notes		
	Issued Apr 12, 2012		Amount	Issued Oct 25, 2012		Amount	Issued Jul 10, 2007		Amount	Issued Jan 27, 2010		Amount
	Interest Rates			Interest Rates			Interest Rates			Interest Rates		
2014	0.60%	\$ 175,000		1.65%	\$ 20,000		3.00%	120,000		5.85%	105,000	
2015	0.80%	125,000		1.65%	20,000		3.00%	870,000		6.00%	110,000	
2016	1.00%	125,000		1.65%	20,000		3.00%	890,000		6.20%	120,000	
2017	1.20%	125,000		1.65%	20,000		3.00%	615,000		6.35%	125,000	
2018	1.60%	55,000		3.00%	25,000		3.00%	570,000		6.50%	135,000	
2019	1.60%	55,000		3.00%	25,000		3.00%	580,000		6.60%	140,000	
2020	2.20%	55,000		3.00%	25,000		3.00%	605,000		-	-	
2021	2.20%	55,000		3.00%	25,000		3.00%	325,000		-	-	
2022	2.20%	60,000		3.00%	25,000		3.00%	145,000		-	-	
2023	-	-		-	-		3.00%	-		-	-	
2024	-	-		-	-		3.00%	145,000		-	-	
2025	-	-		-	-		3.00%	152,000		-	-	
2026	-	-		-	-		3.00%	157,000		-	-	
2027	-	-		-	-		3.00%	161,000		-	-	
		<u>\$ 830,000</u>			<u>\$ 205,000</u>			<u>\$ 5,495,000</u>			<u>\$ 735,000</u>	

See accompanying independent auditors' report

City of Shenandoah
Schedule of Receipts by Source and Disbursements By Function –
All Governmental Funds
For the Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts										
Property tax	\$ 2,267,452	2,184,991	2,088,460	2,001,119	2,081,913	1,827,595	1,737,689	1,693,590	1,706,276	1,704,048
Tax increment financing collections	271,000	263,995	266,193	235,993	233,062	310,639	296,773	230,021	163,168	-
Other city tax	748,052	633,159	705,978	619,349	617,677	661,772	636,673	634,961	568,095	545,968
Licenses and permits	7,364	100,420	20,774	15,621	52,901	15,112	17,023	32,010	11,434	12,526
Use of money and property	61,324	107,926	129,384	110,732	84,675	163,952	127,611	122,296	101,079	54,474
Intergovernmental	1,276,224	1,518,009	1,525,245	811,721	1,142,938	1,030,719	503,308	585,786	1,104,118	1,670,128
Charges for service	804,247	790,502	719,461	728,724	748,737	626,313	557,200	538,671	514,281	529,365
Special assessments	-	68,413	71,663	74,750	77,675	80,438	77,837	80,088	82,187	67,587
Miscellaneous	648,067	559,258	629,841	754,172	1,603,580	1,456,303	1,145,048	450,013	353,661	326,125
Total	\$ 6,083,730	6,226,673	6,156,999	5,352,181	6,643,158	6,172,843	5,099,162	4,367,436	4,604,299	4,910,221
Disbursements										
Operating:										
Public safety	\$ 1,265,822	1,434,911	1,193,934	1,084,848	1,131,516	1,043,289	927,647	1,000,813	871,126	912,467
Public works	1,256,709	1,259,864	1,343,202	1,234,191	1,207,154	1,051,117	1,069,262	989,441	921,685	973,336
Health and social services	1,146	1,396	4,844	119	100	647	6,789	3,303	21,004	40,784
Culture and recreation	1,160,098	947,213	1,083,166	1,027,767	982,908	1,009,515	912,149	845,644	834,049	928,728
Community and economic development	382,075	694,860	380,355	113,578	215,171	232,403	133,723	191,545	496,577	98,963
General government	317,453	341,893	305,423	284,343	356,454	301,128	240,817	273,752	232,789	213,220
Debt service	1,036,792	1,391,691	871,451	1,077,300	998,027	1,074,654	1,035,985	1,013,990	934,264	910,661
Capital projects	1,413,500	2,532,991	1,888,876	2,472,320	1,475,101	3,686,201	980,436	81,216	1,158,590	1,949,805
Total	\$ 6,833,595	8,604,819	7,071,251	7,294,466	6,366,431	8,398,954	5,306,808	4,399,704	5,470,084	6,027,964

See accompanying independent auditors' report

City of Shenandoah



Diane McGrain, CPA
Jim Menard, CPA

December 13, 2013

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 13, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Shenandoah's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Shenandoah's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Shenandoah's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Shenandoah's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

Continued...

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City of Shenandoah
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shenandoah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Shenandoah's Responses to Findings

City of Shenandoah's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Shenandoah's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shenandoah during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, P. C.

City of Shenandoah
Schedule of Findings
June 30, 2013

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the separately maintained records of the Library Foundation, the cash receipts listing, bank deposits, the posting of cash receipts to the cash receipts journal, disbursements preparation and check signing are all performed by the same person. Also, the bank account is not reconciled by a person who does not sign checks and no evidence of review of the bank reconciliation is noted.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Library Foundation should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff. Independent reviews of reconciliations prepared should be performed and the review should be documented by the signature or initials of the reviewer and the date of the review.

Response – The Library Board chairperson will do an annual review and initial. The Librarian and City Clerk will initial the monthly bank statement reconciliation after review.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Shenandoah
Schedule of Findings
June 30, 2013

Part II: Other Findings Related to Statutory Reporting:

II-A-13 Certified Budget

Comment – Disbursements during the year ended June 30, 2013, exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend the budget in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-B-13 Questionable Disbursements

We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-13 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-13 Business Transactions –

Comment – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Darrel Saner, Employee, Owner of Shenweld	Repairs	\$ 1,694
Tim Barr, Employee, Owner of Tim Barr Janitorial Services	Cleaning	<u>4,004</u>
		<u>\$ 5,698</u>

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the employees appear to represent a conflict of interest since the transactions with the individuals exceeded \$1,500 during the fiscal year.

Recommendation – The City should seek legal advice on this matter.

Response – We will do this.

Conclusion – Response accepted.

City of Shenandoah
Schedule of Findings
June 30, 2013

Part II: Other Findings Related to Statutory Reporting - Continued:

II-E-13 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-13 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-13 Deposits and Investments

Comment – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy. However, the City did not list the maximum authorized amounts for each depository used in its depository resolution.

Recommendation – The City should amend its depository resolution to include the maximum amounts authorized for each depository used.

Response – We will do this.

Conclusion – Response accepted.

II-H-13 Revenue Notes

Comment – The sewer revenue note resolution requires the City to establish, levy and collect rents and other charges for the products and services provided by its sewer system, which rents rates and other charges shall be at least sufficient (a) to meet the operation and maintenance expenses of such sewer system and (b) to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the revenue notes and any other obligations secured by a pledge of the net receipts falling due in the same year. The City's fiscal year 2013 net operating receipts of \$147,386 is less than 110% of the required debt service payment of \$180,980.

Recommendation – The City should ensure the net receipts are not less than 110% of the amount of annual principal and interest, as required by the sewer note resolution.

Response – We have increased sewer rates effective October 2013 to increase net operating receipts to the expected level.

Conclusion – Response accepted.

City of Shenandoah
Schedule of Findings
June 30, 2013

Part II: Other Findings Related to Statutory Reporting - Continued:

II-I-13 Financial Condition

Comment – The Debt Service Fund had a deficit balance of \$6,041 at June 30, 2013.

Recommendation – The City should investigate alternatives to eliminate the deficit balance in order to return this fund to a sound financial position.

Response – The deficit was due to payment on new debt issued during the year and will be eliminated with property tax receipts.

Conclusion – Response accepted.

II-J-13 Urban Renewal Annual Report –

Comment – The urban renewal annual report was certified to the Iowa Department of Management on or before December 1. However, the following exception was noted:

The amount reported by the City as TIF debt outstanding was reported in total rather than the annual appropriated amount that is certified.

Recommendation – The debt amounts reported on the Levy Authority Summary should agree with the City's records of certified debt.

Response – This item was corrected on the next year's report.

Conclusion – Response accepted.

City of Shenandoah
Schedule of Findings
June 30, 2013

Part II: Other Findings Related to Statutory Reporting - Continued:

II-K-13 Insurance – The following insurance policies were in force at June 30, 2013

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Property coverage: Buildings	\$ 29,355,225	July 1, 2013
Employers Mutual Casualty Company	Comprehensive general liability: Each occurrence Aggregate	1,000,000 2,000,000	July 1, 2013
Employers Mutual Casualty Company	Inland marine: Contractors' equipment Electronic data processing equipment Property floater	969,606 138,000	July 1, 2013
Employers Mutual Casualty Company	Automobile coverage: Liability Uninsured motorists	1,000,000 40,000	July 1, 2013
Employers Mutual Casualty Company	Linebacker: Each loss Aggregate	1,000,000 1,000,000	July 1, 2013
Employers Mutual Casualty Company	Workers' compensation	500,000	July 1, 2013
Employers Mutual Casualty Company	Commercial umbrella: Retained Each occurrence Aggregate	10,000 5,000,000 5,000,000	July 1, 2013
Employers Mutual Casualty Company	Employee dishonesty: Blanket bond Alteration	100,000 10,000	July 1, 2013
Employers Mutual Casualty Company	Commercial crime: Inside premises Outside premises	10,000 10,000	July 1, 2013
Employers Mutual Casualty Company	Law enforcement liability: Each occurrence Aggregate	1,000,000 1,000,000	July 1, 2013
Petroleum Marketers Management Insurance Company	Airport liability: Each occurrence Aggregate	1,000,000 1,000,000	May 20, 2014